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Federal Communications Commission  
Office of the Secretary

**À LA CARTE PRICING STATEMENT  
OF  
MICHAEL WILLNER  
PRESIDENT AND CEO  
INSIGHT COMMUNICATIONS**

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List A B C D E

My name is Michael Willner. I'm President and CEO of Insight Communications, the 9<sup>th</sup> largest cable operator in the United States, with 1.4 million customers located in Illinois, Indiana, Kentucky and Ohio. Thank you for providing me the opportunity today to discuss the reasons why Insight, along with many others in the cable industry, is opposed to any government effort to mandate à la carte offerings.

Free from government interference, the cable industry's packaging and marketing of networks and services has led to an explosion of viewing choices at affordable prices. Additional government involvement in those packaging decisions would fundamentally change the cable business – to the detriment of consumers.

There are many reasons why we believe that the government cannot and should not intrude into cable operators' decisions about how to provide their product to customers. I'll confine my remarks today to a description of the significant technical and operational problems caused by mandated à la carte. To provide such an artificially-induced marketing and packaging regime, cable operators would have to spend significant sums on technical and operational modifications. This will translate into higher prices for all of our customers, even if not a single one opts to purchase services on an à la carte or themed tier basis. The Booz Allen study shows why and our research shows few would avail themselves of this opportunity.

Some brief background on how cable services are offered today helps explain why providing analog services à la carte or in themed tiers would require such costly – and technically unworkable – modifications. Insight customers today can choose to purchase some programming on an à la carte basis – HBO, Showtime and other premium services, as well as pay-per-view and video on demand. And we provide multiple options for Insight’s digital customers to pick and choose among packages of genre-based networks that are grouped according to viewer interests. But at Insight, as in virtually all the cable industry, most analog advertiser-supported services have been offered as part of a group of networks in a single expanded basic tier.

Today, so long as they have a cable-ready television set, most expanded basic tier customers can receive that tier without any set-top box. These analog services are not scrambled or encrypted – rather, they are delivered “in the clear.” Because expanded basic channels are typically offered in a contiguous frequency block, the relative handful of basic-only customers can receive a reduced level of service by blocking these contiguous channels through what is called a single band pass filter, or “trap.” Some of our à la carte premium services today are available by trapping out those services from non-subscriber’s homes. This is the preferred and most cost effective way of providing an optimal mix of services to our customers. As far as I am aware, most cable systems provide customers the same options in a similar way.

How would an à la carte mandate change this? If the government forced Insight to sell each analog expanded basic channel individually to customers, it would mean completely changing the technical means of delivering the expanded basic tier to all of our customers. There are a handful of ways to do this in theory. But as I'll explain in a moment, the reality is that all the means of providing individual channels have serious technical and operational drawbacks that make them unworkable. Under some scenarios, all customers would be forced to obtain boxes for each of their television sets, even if they did not want to avail themselves of the à la carte option. Under all scenarios, Insight would be forced to jury-rig an artificial and wholly unacceptable technical approach so that an unknown number of our tier customers might be able to choose a customized mix of services.

**Traps.** The most rudimentary technology would be to use physical traps to segregate the analog enhanced basic tier channels that are desired by an à la carte customer from those that are not. But traps suffer from severe limitations that make them technically infeasible for use in an à la carte world.



Insight's written comments go through these many technical problems in some detail. I'll highlight a few here. It is one thing to use a trap to keep one or two premium services from entry into a non-subscriber's home. But it is a far different thing to try to use traps to create a customized à la carte offering from among dozens of commingled expanded basic tier channels. It likely would be impossible from a technical standpoint to adequately deliver selected individual channels when those channels are interlaced with unwanted channels on the system's channel line-up. In addition, video and audio quality seriously degrades as the number of traps increases. Attaching more than four or five traps in a single aerial installation can cause safety, mechanical and electrical problems, as well as signal leakage. As a result, any expanded use of traps would require continuous monitoring and would greatly increase system maintenance burdens and expense.

Using traps for this purpose would also present a customer service nightmare. With about 50 or 60 or more channels on a typical analog expanded basic tier, each à la carte installation would require a highly customized set of traps to allow customers to pick which channels they wanted to include or exclude from their customized service. And installation of and changes to each custom-tailored trap would necessitate a truck roll to each à la carte customer's home – at an estimated average cost of \$45-\$50 per truck roll.

**Interdiction.** I am aware that one vendor filed comments with the FCC suggesting that the technology that it provides – called interdiction – would be a technically feasible means of offering analog channels a la carte that would not require all customers to get set-top boxes. Interdiction is an addressable signal security system that has been used by a small number of cable systems to block out a few analog premium channels. There are a variety of reasons why interdiction would not be feasible to use for offering a la carte services.

Interdiction technology is both technically and operationally complex, and expensive to provide. The deployment of interdiction devices may require an extensive redesign of cable system plant to accommodate the increased powering needs of the devices. It may necessitate installation of expensive headend control equipment. Like traps, interdiction can reduce the quality and reliability of service to other cable customers through signal leakage and degradation. The technology is susceptible to theft of service. Imposing these costs to support an outdated analog system at a point when the cable industry is moving in a rapid fashion to digital based service offerings would seem to be a major step backward.

### **Hybrid Analog and Digital Addressable Set-Top Boxes.**

Another theoretical alternative would be to deploy hybrid analog and digital addressable set-top boxes that would allow à la carte customers to receive only those specific analog expanded basic channels they select while at the same time allowing them to continue to receive digital services. Implementing a technical solution along these lines would require all expanded basic channels to be encrypted – meaning that all customers to the expanded basic tier, even if they did not choose à la carte, would be forced to lease or purchase boxes for every television set in their homes.

Even setting aside this imposition of box and scrambling costs on all customers, this type of technology is widely considered to be obsolete. Cable systems have been moving away from analog technology toward the more efficient digital technology over the last several years, and set-top boxes have moved in that direction as well. The major set-top box manufacturers no longer use analog scrambling technology and the most important component – the integrated circuit devices used to segregate and descramble analog signals – has been discontinued by all major suppliers.

**Conversion to All-Digital.** Another extremely costly way to provide à la carte would be to convert all analog services carried on expanded basic tiers to digital. This premature change-over in transmission technologies would also require the tens of millions of cable customers that currently do not have digital television sets to rent or buy set-top boxes for each television set in their homes – in this case, addressable digital set-top boxes for every television set connected to cable in each subscriber's home. Industry-wide, NCTA estimates that set-top box costs alone under this scenario would reach \$33.8 billion. My company's costs could run approximately \$560 million for set-top boxes (roughly 1/3 of Insight's customers currently subscribe to a digital tier and therefore are currently equipped with at least one digital set-top box in their homes.) And each cable headend would have to be changed at a cost of

approximately \$13,000 per channel per headend. This option is simply impossible.



**Digital simulcast.** The final approach would be to devise a system that, while allowing customers to purchase tiered services on an à la carte basis, did not disturb customers who continue to purchase existing tiers, so they could continue to receive their same channels in the same fashion as today. The only way to accomplish this would be to offer a digital “simulcast” of the same channels available in the analog tier, which would allow à la carte customers to elect to receive enhanced basic services individually. Every customer selecting à la carte would need a box for every television set in his or her home. At a cost to Insight of at least \$200 per box, this would result in an increase in the subscriber’s bill of about \$8 per month, per box (and even more for boxes with high end capability like DVRs.)

In addition to the set-top box and headend costs entailed in converting an analog signal to digital, a simulcast approach would consume valuable bandwidth. Assuming that 50 analog channels are duplicated on a digital tier, it would take at least five 6 MHz slots in the digital spectrum to accommodate these digital channels – a significant slice of the extremely valuable digital bandwidth.

**Themed-tiers.** Any scenario to create mini-tiers would involve some variation of combination of these options, and either traps and/or digital set-top boxes would be needed to create and support the mini-tiers. As such, each would present the same types of technical difficulties and costs as their respective counterparts under a full-blown à la carte approach. For example, if mini-tiers are created from existing analog tier channels, then traps would have to be employed. They would cause the same irresolvable technical and operational problems. In addition, because channels that might be placed in a mini-tier are not always grouped together, the number of traps necessary would multiply.

**Operational Costs.** It's not just costs arising from duplicated bandwidth, set-top boxes, and additional headend equipment that would be imposed. In addition, cable operators would be forced to make significant operational and back office changes to accommodate à la carte – changes that also will increase costs and decrease customer satisfaction levels. Just consider the marketing nightmare created by an à la carte requirement. Customer care costs will dramatically increase as representatives will need to spend significantly more time with customers explaining the myriad à la carte options. Confusion over bills and service offerings would result in a substantial increase in the call volume as well. Entirely new billing systems would have to be created, as no known cable billing software is presently capable of recording constant changes in a customer's services and charges.

What is the case for forcing cable operators to incur all these costs and take all these customer-unfriendly steps? Some have argued that the industry should be forced to experiment to see whether consumers are really interested in the à la carte alternative. But none of the à la carte proponents have shown how it could possibly be forced upon the cable industry without the imposition of the significant costs I've described – costs that would have to be recovered from all customers, not just the relatively few that might take à la carte. And no commenter has been able to make the case that this type of government-mandated experiment actually works as a business model for program services currently offered on analog tiers. In fact, history shows just the opposite to be true – a number of program networks that started out trying to make it à la carte found that carriage on a tier was essential to their ability to attract viewers and improve their programming. An à la carte environment

simply did not provide the economic support to sustain their programming effort. Even The Disney Channel had to re-launch itself as a basic service.

Why would the government try to interfere with the marketplace and potentially wreck one of the great success stories of the last twenty years – the rise of new and diverse viewing options for the American public? The range of choice that cable customers enjoy today is a direct result of the environment that has allowed operators and programmers to grow their businesses unfettered by unnecessary government interference. There is no basis for a governmentally-mandated à la carte model that is entirely unproven and would result in substantial harm to the public.



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## Laybourne Breathing Fire Over a la Carte

By Ted Hearn -- Multichannel News, 7/29/2004 5:51:00 PM

Geraldine Laybourne may be CEO of Oxygen Media, but she was breathing fire Thursday at an all-day Federal Communication Commission forum on the plausibility of cable companies offering more channels on an a la carte basis.

"A la carte is not the answer. In fact, it is one of the worst ideas I have ever heard," Laybourne told an FCC panel headed by Media Bureau chief Kenneth Ferree, who has bemoaned the lack of channel choice on cable and declared himself an unabashed fan of a la carte pricing.

Ferree's staff is preparing an a la carte report for Congress due Nov. 18. Lawmakers wrote the FCC expressing concern about the lack of a la carte options on cable and about indecent programming that customers can block free-of-charge but still need to purchase.

The economics of a la carte would, Laybourne said, result in consumers paying more money for fewer channels -- a statement that reflected the results of a study funded by the National Cable & Telecommunications Association, which found that a la carte would trigger higher per-channel rates and crush niche networks that need homes within large tiers to gain traction with viewers and advertisers.

Cable-network budgets would undergo dramatic change, Laybourne said, adding that a channel like Oxygen, which spends less than 5% on marketing, would need to ramp up marketing spending in an effort to persuade viewers to give the channel a try.

"The idea that we would have to spend that money on marketing is an abomination," she added.

Laybourne noted that when Nickelodeon was just an idea, kids surveyed said they didn't want the channel. Today, Nick is a cable-programming jewel. That anecdote, she said, demonstrated that large tiers offer cable networks crucial consumer exposure.

"Consumers would never get a new network under this [a la carte] scenario," Laybourne said. "There would be less money for good programming."

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